

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 FRB-01 INR-07

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TO USDOC WASHDC

SECSTATE WASHDC 3423

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

UNCLAS SECTION 1 OF 2 RIO DE JANEIRO 0880

E. O. 11652: N/A

TAGS: BEXP BR

SUBJ: SIDERBRAS STEEL EXPANSION PROGRAM - BIDDING PROCEDURES

REF.: (A) RIO 0768

(B) RIO 0778

(C) RIO 0690

(D) BRASILIA 1414

1 SUMMARY: AS IT BECOMES INCREASINGLY CLEAR THAT
BRAZILIAN-MADE EQUIPMENT COMPETING IN SIDERBRAS' STAGE
III STEEL EXPANSION PROGRAM IS PRICED CONSIDERABLY
HIGHER THAN FOREIGN-MADE COMPONENTS, THE LOCAL CONTROVERSY
OVER THE BIDDING PROCEDURES IS GROWING. DOMESTIC
INDUSTRIALISTS CHARGE THAT IBRD HAS REQUIRED THE SIDERBRAS
COMPANIES TO ACCEPT INTERNATIONAL COMPETITIVE BIDDING FOR THE
ENTIRE PROGRAM. ACTION REQUESTED: THAT STATE/COMMERCE SEEK
CLARIFICATION FROM IBRD.

END SUMMARY.

2. SINCE REPORT OF MEETING BETWEEN ABDIB PRESIDENT CLAUDIO
BARDELLA AND MINISTER OF INDUSTRY AND COMMERCE SEVERO GOMES
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(REFTEL C), ABDIB (BRAZILIAN ASSOCIATION FOR THE DEVELOPMENT

OF HEAVY INDUSTRY) HAS CONTINUED TO PUBLICIZE PROBLEM LOCAL INDUSTRIALISTS FACE IN SIDERBRAS STAGE III STEEL EXPANSION PROGRAM. NOTED BELOW ARE HIGHLIGHTS REPORTED IN THE PRESS.

3. AT FEB. 11 ABDIB MEETING, BARDELLA ASSERTED THAT BRAZIL IS NOT THE "BACKYARD" OF THE WORLD. HE CALLED ON GOB TO "TURN THE TABLES" ON IBRD AND TO BREAK ITS AGREEMENTS BY WHICH SIDERBRAS COMPANIES ARE TO RECEIVE \$200 MILLION FROM IBRD FOR FINANCING EQUIPMENT PURCHASES. ACCORDING TO BARDELLA, THE AGREEMENTS OBLIGE BRAZIL TO FOLLOW IBRD BIDDING PROCEDURES ON ALL PURCHASES, EVEN THOUGH IBRD FUNDS WILL COVER ONLY ABOUT TEN PERCENT OF TOTAL SIDERBRAS PROGRAM. BARDELLA CLAIMED GOB HAD RECEIVED MORE THAN ENOUGH OFFERS FROM SUPPLIER COUNTRIES AND FROM BRAZIL'S NATIONAL DEVELOPMENT BANK (BNDE) TO REPLACE IBRD FINANCING. HE REPORTEDLY STATED THAT IF BRAZIL DOES NOT BREAK WITH IBRD, THEN LOCAL INDUSTRY'S PARTICIPATION IN SIDERBRAS EXPANSION PROGRAM WILL BE "MINIMAL". AT SAME MEETING ABDIB VICE-PRESIDENT HENRIQUE SANSON ASSERTED THAT BECAUSE OF INTERNAL MARKETING REGULATIONS, LOCAL INDUSTRIALISTS PAY 34-40 PERCENT ABOVE INTERNATIONAL PRICES FOR IMPORTED STEEL. AS A CONSEQUENCE, 15 PERCENT MARGIN OF PROTECTION WHICH IS GIVEN TO LOCAL INDUSTRY IN COMPARISON OF BIDS ON SIDERBRAS PROGRAM IS NOT SUFFICIENT TO OVERCOME THE INHERENT HIGHER COSTS OF PRODUCTION IN BRAZIL. ALSO ATTENDING ABDIB MEETING WAS CSN PRESIDENT PLINIO CONTANHEDE, WHO REPORTEDLY STATED THAT SIDERBRAS STEEL COMPANIES SIMPLY FOLLOW GOB POLICY.

4. ON FEB. 16 LOCAL PRESS QUOTED MINISTER SEVERO GOMES AS SAYING THAT EQUIPMENT REQUIREMENTS OF SIDERBRAS EXPANSION PROGRAM WERE MUCH GREATER THAN LOCAL INDUSTRIES COULD PROVIDE, BUT THAT GOB EXPECTED 50 PERCENT OF THE ORDERS WOULD BE FILLED BY BRAZILIAN MANUFACTURERS. HE CLAIMED GOB WAS EXERTING EVERY EFFORT TO DEVELOP HEAVY INDUSTRY SECTOR. ON SAME DAY CLAUDIO BARDELLA WAS REPORTED TO HAVE ANNOUNCED THAT LOCAL INDUSTRIALISTS MUST RECEIVE MORE PROTECTION FROM GOB. HE SUGGESTED THAT GREATER INCENTIVES BE IMMEDIATELY PROVIDED FOR DOMESTIC PRODUCTION OF HEAVY EQUIPMENT. FEB. 16 JORNAL DO BRAZIL ALSO CARRIED LONG ARTICLE ON USIMEC, THE USIMINAS-CONTROLLED HEAVY EQUIPMENT MANUFACTURER. ARTICLE ASSERTED UNCLASSIFIED

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THAT JAPANESE ARE OFFERING EQUIPMENT AT PRICES WELL BELOW COST AND THAT BRAZILIAN COMPANIES STAND LITTLE CHANCE OF SUCCESS UNDER PRESENT CONDITIONS. ALTHOUGH SEVERO GOMES HAD ASSURED LOCAL INDUSTRIALISTS THAT THEY WOULD RECEIVE 50 PERCENT OF SIDERBRAS BUSINESS, ARTICLE CONTINUED, INDUSTRIALISTS DID NOT SEE HOW THAT WOULD BE POSSIBLE SINCE SIDERBRAS APPEARS DISPOSED TO ACCEPT BIDS WITH LOWEST PRICES. ACCORDING TO AN USIMEC OFFICIAL, FIRM COULD PRODUCE 70-80 PERCENT OF

THE TYPES OF EQUIPMENT REQUIRED UNDER SIDERBRAS PROGRAM. FURTHERMORE, USIMEC'S OWN EXPANSION DEPENDS ON LEVEL OF NATIONALIZATION USED BY SIDERBRAS. OFFICIAL SUGGESTED THAT 15 PERCENT FIGURE FOR COST COMPARISON PURPOSES WHICH IS GIVEN IN FAVOR OF NATIONAL PRODUCTION BE RAISED. ALTERNATIVELY, 50 PERCENT OF FINANCING AVAILABLE TO SIDERBRAS COULD BE APPLIED TO LOCALLY PRODUCED EQUIPMENT AND OTHER 50 PERCENT COULD BE USED FOR EQUIPMENT PURCHASES RESULTING FROM INTERNATIONAL COMPETITIVE BIDDING. (FYI: THIS PROPOSAL APPEARS TO IGNORE THE FACT THAT BI-LATERAL FINANCING ORDINARILY DOES NOT COVER THE MANUFACTURE OF EQUIPMENT IN THE BORROWER'S COUNTRY END FYI).

5. ACCORDING TO FEB. 14 GAZETA MERCANTIL, AN UNNAMED HIGH-RANKING GOB OFFICIAL STATED THAT THE GOB "GUARANTEED" LOCAL INDUSTRIALISTS 50 PERCENT OF STAGE III EQUIPMENT ORDERS. OFFICIAL ALSO SAID IBRD HAD NOT STIPULATED THAT INTERNATIONAL COMPETITIVE BIDDING MUST BE ADHERED TO BY SIDERBRAS COMPANIES ON ENTIRE PROGRAM IN RETURN FOR IBRD FINANCING.

6. FEB. 18 GAZETA MERCANTIL STATED THAT LOCAL INDUSTRIALISTS HAVE SCHEDULED A MEETING WITH GOB OFFICIALS ON FEBRUARY 25 TO DETERMINE WHETHER GOB INTENDS TO RENEGOTIATE ITS STEEL PROGRAM LOANS WITH IBRD.

7. FEB. 19 JORNAL DO BRASIL CARRIED AN ARTICLE DATED LINEA BRASILIA CLAIMING THAT GOB WILL NOT RE-NEGOTIATE ITS LOANS WITH IBRD AND THAT AT PREVIOUS DAY'S MEETING BETWEEN MINISTRY OF INDUSTRY AND COMMERCE SECRETARY GENERAL PAULO BELOTTI AND TWO VISITING IBRD DIRECTORS, GUNTHER WIESE AND DAVID GREENE, THE SUBJECT DID NOT COME UP.

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TO USDOC WASHDC
SECSTATE WASHDC 3424
INFO AMEMBASSY BRASILIA
AMCONSUL SAO PAULO

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8. FEB. 20 O GLOB REPORTED EXTENSIVELY ON SEMINAR HELD PREVIOUS DAY SPONSORED BY FINANCIAL REPORTERS OF THE LOCAL PRESS. ACCORDING TO O GLOBO, THE MOST "POLEMIC" SUBJECT ON AGENDA WAS STEEL EXPANSION PROGRAM. ABDIB VICE-PRESIDENT SANSON WAS REPORTED TO HAVE STRONGLY CRITICIZED CONDITIONS IMPOSED BY IBRD. BNDE PRESIDENT MARCOS VIANNA REPORTEDLY RESPONDED THAT IBRD REQUIREMENTS APPLY ONLY TO EQUIPMENT FINANCED BY IBRD, OR LESS THAN TEN PERCENT OF TOTAL PROGRAM. VIANNA ADDED THAT HE DID NOT CONSIDER IT NECESSARY TO RE-NEGOTIATE CONDITIONS OF IBRD LOANS AND THAT EQUIPMENT PURCHASES NOT COVERED BY IBRD LOANS WOULD BE MADE USING CONDITIONS DECIDED ENTIRELY BY THE GOB. HOWEVER, HE ADDED, GOB HAD DECIDED TO USE INTERNATIONAL COMPETITIVE BIDDING FOR ENTIRE EXPANSION PROGRAM. VIANNA REPORTEDLY STATED THAT IF GOB SHOULD DECIDE TO CHANGE BIDDING REGULATIONS TO HELP LOCAL INDUSTRY, IT MIGHT POSSIBLY HAVE RAMIFICATIONS ON FUTURE DEALINGS WITH IBRD. ASKED WHAT GOB WOULD DO IF IBRD WITHDREW ITS PARTICIPATION IN STAGE III PROGRAM, VIANNA REPORTEDLY REPLIED, "WE WOULD FINANCE IT OURSELVES".

9. FEB. 21 GAZETA MERCANTIL STATED THAT SIMESSP (MACHINERY INDUSTRY ASSOCIATION OF SAO PAULO) LAST WEEK SENT TELEGRAMS TO MINISTER SEVERO GOMES REQUESTING POSPONEMENT OF TWO UNCLASSIFIED

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IMPORTANT BID OPENINGS UNTIL AFTER MEETING OF GOB'S CDE (ECONOMIC DEVELOPMENT COUNCIL) SCHEDULED FOR THIS WEEK. TWO OPENINGS WERE FOR CSN HOT-STRIP MILL ON FEBRUARY 18 AND CSN COLD MILL AND TWO TEMPER MILLS ON FEBRUARY 24, WORTH A TOTAL OF SOME \$150 MILLION REASON SIMESEP REQUESTED DELAYS IN OPENINGS WAS THAT CDE IS SCHEDULED TO DISCUSS INCENTIVES FOR DOMESTIC INDUSTRIES COMPETING IN SIDERBRAS PROGRAM. SIMESEP TELEGRAM ARGUED THAT GOB DECISIONS ON INCENTIVES SHOULD BE MADE AND ANNOUNCED BEFORE BID OPENINGS SO THAT BRAZILIAN FIRMS QUALIFYING FOR INCENTIVES WOULD BE ABLE TO TAKE THEM INTO ACCOUNT IN FORMULATING PRICE PROPOSALS.

10. FEB. 23 JORNAL DO BRASIL RAN TWO LENGTHY ARTICLES ON STEEL CONTROVERSY. ONE ARTICLE CARRIED MORE REMARKS BY SANSON OF ABDIB, ALONG LINES REPORTED ABOVE. SECOND ARTICLE HIGHLIGHTED INTERVIEW WITH UNNAMED MINISTRY OF INDUSTRY AND COMMERCE OFFICIAL. ESSENCE OF OFFICIAL'S REPORTED REMARKS WERE THAT WHILE GOB APPRECIATED CONCERNS EXPRESSED BY LOCAL

INDUSTRIALISTS, IF THEY WERE TO SUPPLY 50 PERCENT OF THE EQUIPMENT FOR EXPANSION PROGRAM, IMPLEMENTATION OF THE PROGRAM WOULD BE DELAYED, SOMETHING WHICH CANNOT BE ALLOWED TO OCCUR IN VIEW OF COUNTRY'S CONTINUING HIGH IMPORT BILL FOR STEEL PRODUCTS. MOREOVER, OFFICIAL IS QUOTED AS SAYING, GOB CANNOT AFFORD TO LOSE SUPPORT OF IBRD AS COUNTRY PROCEEDS TOWARDS ITS GOAL OF SELF-SUFFICIENCY IN STEEL. REACHING THAT GOAL ENCOMPASSES MORE THAN JUST CURRENT STAGE III EXPANSION. NOT ONLY DOES GOB NEED FINANCIAL ASSISTANCE OF IBRD, WHICH PROVIDES MOST FAVORABLE FINANCING AVAILABLE, BUT GOB RECOGNIZES THAT BI-LATERAL FINANCING FROM SUPPLIER NATIONS GENERALLY FOLLOWS IBRD'S LEAD. FINALLY, OFFICIAL STATED, FOREIGN-MADE EQUIPMENT HAS OBVIOUS ADVANTAGES OF BEING LOWER-PRICED AND INCORPORATING MORE ADVANCED TECHNOLOGY THAN LOCALLY-MADE COMPONENTS.

11. ACTION REQUESTED: IN VIEW INTENSE CONTROVERSY OVER BIDDING PROCESURES IN SIDERBRAS PROGRAM AND IMPORTANCE THE RESULT COULD HAVE FOR U.S. EQUIPMENT SUPPLIERS (BOTH THOSE WITH BRAZILIAN PLANTS AND THOSE BIDDING DIRECTLY FROM U.S., SOMETIMES IN CONSORTIUM WITH BRAZILIAN FIRMS), WE BELIEVE IT WOULD BE EXTREMELY USEFUL FOR STATE/COMMERCE TO CLARIFY CONDITIONS WHICH IBRD MAY HAVE PLACED ON BIDDING PROCEDURES FOR THE PROGRAM. IT WOULD BE IMPORTANT TO KNOW WHETHER CONDITIONS ON IBRD'S OWN LOANS APPLY

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TO BIDDING ON ENTIRE EXPANSION PROGRAMS. ORDINARILY WE WOULD ASK SIDERBRAS AND ITS COMPANIES THESE QUESTIONS OURSELVES, BUT WE WOULD PREFER NOT TO JUST NOW, IN VIEW OF CURRENT LOCAL CONTROVERSY AND SENSITIVITIES.

12. EMBASSY BRASILIA CONCURS.
DEXTER

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